Hydro Québec

Cue Card 2007-2008

Hydro-Québec generates, transmits and distributes electricity, mainly using renewable energy sources, in particular hydroelectricity. Its transmission and distribution activities are regulated by the Régie de l'énergie du Québec. To meet growing demand, it is continuing to develop hydropower, complemented by wind power purchased from independent producers.

In addition, it conducts research and develops new technologies in energy-related fields. It also actively promotes energy efficiency. Hydro-Québec's sole shareholder is the Québec government, which guarantees most of its borrowings.

Subsidiaries and holdings

CapiTech — A subsidiary of Hydro-Québec

Energy Marketing — A subsidiary of Hydro-Québec

Société d'énergie de la Baie James

Hydro Québec International

IndusTech — A subsidiary of Hydro-Québec

Key Statistics[1]

At December 31	(in C$)	2003	2004	2005	2006	2007
Revenue	(millions)	10,197	10,341	10,887	11,161	**12,330**
Expenditure						
Operations	(millions)	2,070	2,158	2,248	2,394	**2,545**
Electricity and fuel purchases	(millions)	1,380	1,464	1,496	1,315	**1,555**
Depreciation and amortization	(millions)	1,768	1,862	2,023	2,007	**1,991**
Taxes	(millions)	567	606	594	529	**553**
Water-power royalties	(millions)	–	–	–	–	**263**[2]
Regulatory deferrals	(millions)	–	–	(11)	(93)	**29**
Total	(millions)	5,785	6,090	6,350	6,152	**6,936**
Operating income	(millions)	4,412	4,251	4,537	5,009	**5,394**
Financial expenses	(millions)	2,492	2,083	2,186	2,212	**2,512**
Income from continuing operations	(millions)	1,920	2,168	2,351	2,797	**2,882**
Income (loss) from discontinued operations	(millions)	18	267	(99)	944	**25**
Net income	(millions)	1,938	2,435	2,252	3,741	**2,907**
Investments in property, plant and equipment and intangible assets	(millions)	2,739	3,071	3,293	3,348	**3,464**
Costs related to Energy Efficiency Plan	(millions)	10	41	91	149	**172**
Total investments	(millions)	2,749	3,112	3,384	3,497	**3,636**
Total assets	(billions)	57.8	58.1	60.4	63.3	**64.9**
Long-term debt	(billions)	33.6	31.3	30.0	33.0	**33.2**
Equity	(billions)	15.1	16.2	17.4	18.8	**20.9**
Average rate increase from January 1 to December 31	(%)	–	4.1	1.3	4.3	**2.8**
Inflation rate	(%)	2.8	1.8	2.2	2.0	**2.2**
Installed capacity[3]	(MW)	33,616	33,892	34,571	35,315	**35,647**
Customer accounts	(thousands)	3,644	3,701	3,753	3,815	**3,869**
Employees	(thousands)	21.4	21.9	22.1	22.6	**23.1**
Financial Ratios						
Interest coverage		1.73	1.79	2.00	2.06	**2.13**
Capitalization	(%)	29.9	32.7	34.1	36.1	**37.5**
Self-financing	(%)	56.3	78.4	58.6	86.5	**61.9**
Return on equity	(%)	13.1	15.4	13.3	20.6	**15.0**

(1) Certain comparative data have been reclassified to reflect the presentation adopted for 2007.

(2) As of 2007, the Corporation has been required to pay water-power royalties under the terms of the Watercourses Act. For 2007, a transition year, the half-rate rule applies.

(3) Hydro-Québec also has access to almost all the output from Churchill Falls generating station (5,428 MW) and purchases all the output from seven privately owned wind farms with a total installed capacity of 420 MW. In addition, 1,222 MW are available under agreements with other independent suppliers.

Hydro-Québec: A quality investment

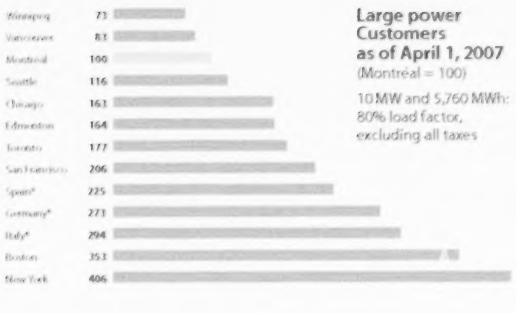
Security	Explicit guarantee by the Québec government on the major portion of Hydro-Québec's debt (debentures, commercial paper, medium-term notes)
Characteristics of the debt at December 31, 2007	Average term: 18.0 years Fixed rate: 92.2%; Variable rate: 7.8% Breakdown by repayment currency: C$90.8%; US$ 9.2%
Strong credit ratings (December 31, 2007)	Long-term debt: Moody's Aa2; Standard & Poor's A+; Fitch Ratings AA-; DBRS A (high) Commercial paper: Moody's P-1; Standard & Poor's A-1+; Fitch Ratings F1+; DBRS R-1 (middle)

Competitive Rates

Index of Electricity Prices

Residential as of April 1, 2007
(Montréal = 100)

1,000 kWh: excluding all taxes



Large power Customers as of April 1, 2007
(Montréal = 100)

10 MW and 5,760 MWh: 80% load factor, excluding all taxes

* At January 1, 2007

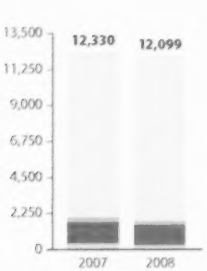
Sources: Hydro-Québec, *Comparison of Electricity Prices in Major North American Cities, April 1, 2007*, and EURELECTRIC, *Electricity Tariffs as of 1 January 2007* (Published Tariffs).

Highlights 2007-2008

- Hydro-Québec launched construction of the major Eastmain-1-A/Sarcelle/Rupert project at James Bay. It will add 893 MW and 8.5 TWh to our generating fleet.
- In September, Hydro-Québec commissioned the 51-MW Mercier generating station.
- Commissioning of the 385-MW Péribonka generating station in the Saguenay–Lac-Saint-Jean region, completed in the first quarter of 2008.
- In September, Hydro-Québec Distribution had received 66 bids from 30 proponents in response to a tender call issued in 2005 for the supply of 2,000 MW of wind power.
- According to a study by J.D. Power and Associates, Hydro-Québec ranked highest among large Canadian utilities (650,000 customers or more) for residential customer satisfaction in 2007. This ranking is based on the responses of approximately 500,000 customers of the country's 14 largest electric utilities.
- The Régie de l'énergie approved a 2.9% across-the-board increase in the rates of Hydro-Québec Distribution for the 2008–2009 rate year, effective April 1, 2008.
- The Régie approved a transmission rate adjustment for 2008, retroactive to January 1, 2008.

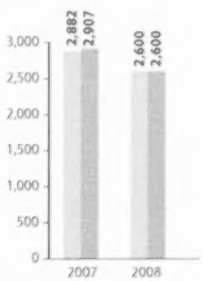
2008 Financial Outlook

Revenue
in millions of C$



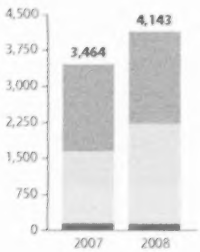
Electricity sales in Québec
Electricity sales outside Québec (long term)
Electricity sales outside Québec (short term)
Other revenue

Net income
in millions of C$



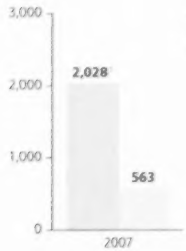
Income from continuing operations
Net income

Investments in property, plant and equipment and intangible assets
in millions of C$



Generation
Transmission
Distribution
Construction
Corporate and Other activities

Financing needs
in millions of C$



Gross borrowing
Net borrowing (or repayment)

1. Excluding net inflows and outflows relating to credit risk management.

Our 2008 borrowing program is approximately $1.1 billion.

For more information, please consult our Web site:
www.hydroquebec.com/financing
You can also contact the Investor Relations team at the following e-mail address:
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